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Trust, Personal Moral Codes, and the Resource-Advantage Theory of Competition: Explaining Productivity, Economic Growth, and Wealth Creation

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ABSTRACT

Scholars agree that societal-level moral codes that promote social trust also promote wealth creation. However, what specific kinds of societal-level moral codes promote social trust? Also, by what specific kind of competitive process does social trust promote wealth creation? Because societal-level moral codes are composed of or formed from peoples' personal moral codes, this article explores a theory of ethics, known as the "Hunt-Vitell" theory of ethics, that illuminates the concept of personal moral codes and uses the theory to discuss which types of personal moral codes foster trust and distrust in society. This article then uses resource-advantage (R-A) theory, one of the most completely articulated dynamic theories of competition, to show the process by which trust-promoting, societal-level moral codes promote productivity and economic growth. That is, they promote wealth creation.

KEY WORDS:

trust, competition, productivity, economic growth, resource-advantage theory, Hunt-Vitell theory

JEL Classification: D40, O40

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Introduction

How does trust within a society relate to that society's productivity and economic growth, that is, its wealth creation? Scholars across a wide range of disciplines maintain that societal-level moral codes that promote *social trust* promote wealth creation (e.g., Fukuyama, 1995; Gambetta, 1988; Harrison, 1992; Phelps, 1975). In economics, for example, Arrow (1972) hypothesized over three decades ago that because "[v]irtually every commercial transaction has within itself an element of trust, ...[it] can be plausibly argued that much of the economic

backwardness in the world can be explained by the lack of mutual confidence" (p. 357). He refers to trust as one of society's "invisible institutions." As such, trust stems from "principles of ethics and morality" and promotes economic growth because it is an "important lubricant of the social system" (Arrow, 1974, pp. 23, 26).

As a second example, Harrison (1992, p.1), an economic development advisor, asks: "Why do some nations and ethnic groups do better than others?" And he answers: "The overriding significance of culture is the paramount lesson I have learned in my thirty years of work on political, economic, and social development." What, then, are the characteristics of a culture that will engender prosperity, one that is progress-prone? This is Harrison's (1992) answer:

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There are, in my view, four fundamental factors: (1) the degree of identification with others in a society - the radius of trust, or the sense of community; (2) the rigor of the ethical system; (3) the way authority is exercised within the society; and (4) attitudes about work, innovation, saving, and profit. (p. 16)

The radius of trust, for Harrison (1992), is the extent to which individuals identify with, or have a sense of community with, others in a society. The smallest radius of trust is a society in which individuals trust only themselves. Next would be those in which the radius extends only to members of the immediate family and other kin. Because of the narrow radius of trust in “familistic” societies: “Commercial and industrial enterprises...are usually weighted down by centralization, including a variety of checking mechanisms and procedures designed...to control dishonesty” (p. 11).

As a third example, Fukuyama (1995, p. 267), a social policy analyst, sees a “crisis of trust” and maintains that trust is the *sine qua non* of societal productivity and economic growth. Defining trust as “the expectation...of regular, honest, and cooperative behavior, based on commonly shared norms” (p. 26), he maintains that a community’s set of shared ethical values contributes to its capacity for *spontaneous sociability*, which “refers to the wide range of intermediate communities, distinct from the family or those deliberately established by governments” (p. 27). Indeed, where sociability and trust are low, governments often have to step in to promote community.

Fukuyama (1995) argues that spontaneous sociability contributes to the ability of high-trust societies to innovate organizationally. In contrast, in low-trust societies, where the radius of trust extends only to kin, the cooperation necessary for large corporations can be obtained only “under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated, and enforced, sometimes by coercive means” (p. 27). This legal and regulatory apparatus, which is unnecessary in a high-trust society, serves as a substitute for trust and imposes a high burden of transaction costs on low-trust societies: “Widespread distrust in a society, in other words, imposes a kind of tax on all forms of economic activity, a tax that high-trust societies do not have to pay” (pp. 27-28).

In short, a consensus is developing that societal-level moral codes that promote *social trust* promote wealth

creation. The purpose of this article is to contribute to our understanding of the *nature* of the kinds of societal-level moral codes that are thought to promote social trust. Furthermore, this article contributes to our understanding of *how* trust-promoting, societal-level moral codes promote wealth creation.

This article is structured as follows. First, because societal-level moral codes are composed of (or formed from) peoples’ *personal* moral codes, I explore a theory of ethics, known as the “Hunt-Vitell” theory of ethics, that illuminates the concept of personal moral codes. I use this theory to discuss which types of personal moral codes foster trust and distrust in society. Second, as to *how* trust-promoting, societal-level moral codes promote wealth creation, I note that this question requires understanding the dynamic nature of competition. Therefore, I review what has come to be known as the “resource-advantage theory of competition” or “R-A theory,” which is one of the most completely articulated, most widely cited, dynamic theories of competition. (The original article that developed the theory has been cited over 1,200 times, and a search for “resource-advantage theory” yields over 75,000 “hits.”) The article then uses R-A theory to show how trust-promoting, societal-level moral codes influence the process of competition in such a way that wealth creation occurs.

The Hunt-Vitell theory of ethics

The purpose of the original article that developed the Hunt-Vitell (H-V) theory—which has been cited over 1200 times—was to (1) provide a general theory of ethical decision-making and (2) represent the theory in a process model (Hunt & Vitell, 1986). The theory would draw on both the deontological and teleological ethical traditions in moral philosophy. While deontologists believe that “certain features of the act itself other than the *value* it brings into existence” make an action or rule *right*, teleologists “believe that there is one and only one basic or ultimate right-making characteristic, namely, the comparative value (nonmoral) of what is, probably will be, or is intended to be brought into being” (Frankena, 1963, p. 14).

Since its original development, the H-V model has undergone extensive discussion and empirical testing, which resulted in a modest revision. The discussion here follows the revised model in Hunt and Vitell

(2006), which is displayed in Figure 1. The model addresses the situation in which an individual confronts a problem perceived as having ethical content. This perception of an ethical problem in the situation triggers the process depicted by the model. If the individual does not perceive some ethical content in a problem situation, subsequent elements of the model do not come into play. Given that an individual perceives a situation as having ethical content, the next

step is the perception of various possible alternatives or actions that might be taken to resolve the ethical problem. It is unlikely that an individual will recognize the complete set of possible alternatives. Therefore, the evoked set of alternatives will be less than the universe of potential alternatives. Indeed, ultimate differences in behaviors among individuals in situations that have ethical content may be traced, in part, to differences in their sets of perceived alternatives.

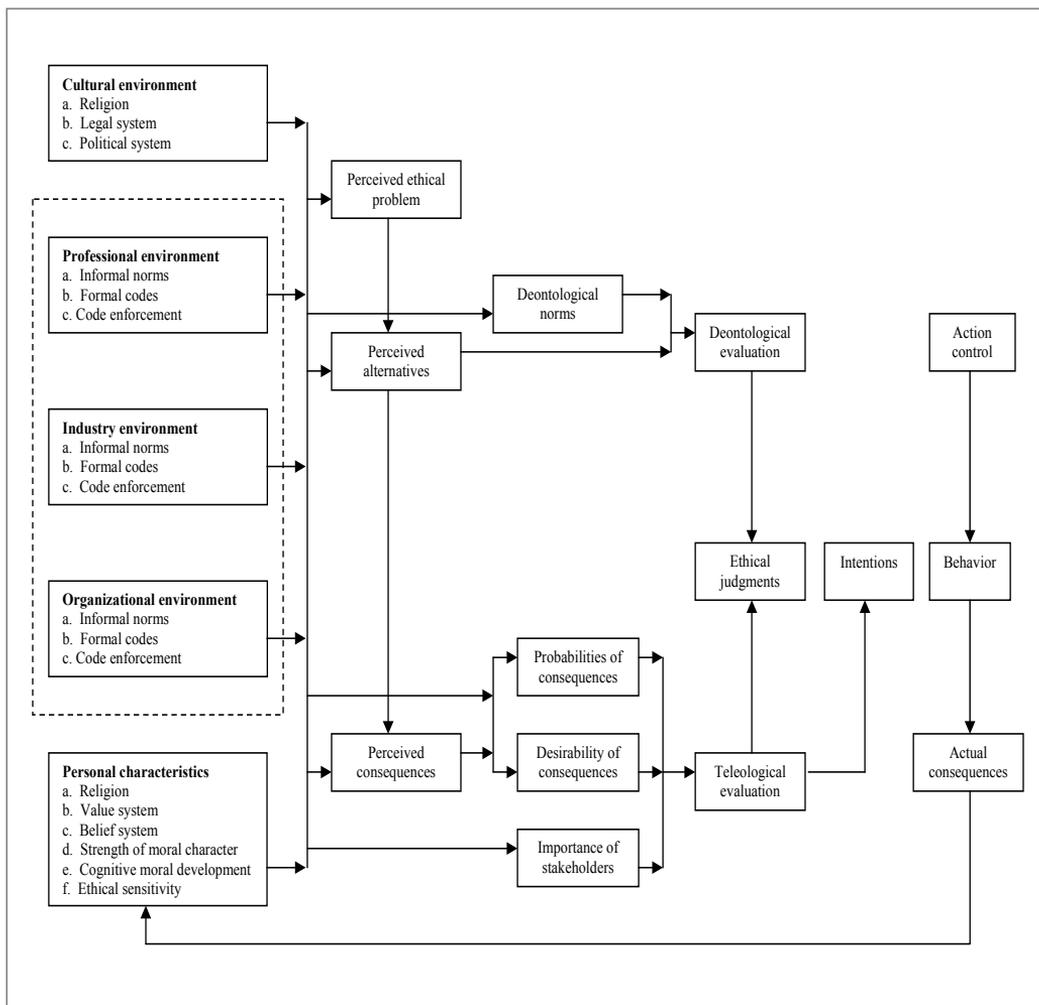


Figure 1. Hunt-Vitell Theory of Ethics. The portion of the model outside the dashed lines constitutes the general theory. The portion inside the dashed lines individualates the general model for professional and managerial contexts. Source: Hunt and Vitell (1986, 1993). Copyright © 1991 by Shelby D. Hunt and Scott J. Vitell

Once the individual perceives the evoked set of alternatives, two kinds of evaluations will take place: a deontological evaluation and a teleological evaluation. In the process of deontological evaluation, the individual evaluates the inherent rightness or wrongness of the behaviors implied by each alternative. The process involves comparing each alternative's behaviors with a set of predetermined deontological norms. These norms represent personal values or rules of moral behavior. They range from (1) general beliefs about things such as honesty, stealing, cheating, and treating people fairly to (2) issue-specific beliefs about things such as deceptive advertising, product safety, sales "kickbacks," confidentiality of data, respondent anonymity, and interviewer dishonesty. The norms, according to H-V theory, take the form of beliefs of the following kinds: "It is always right to ...;" "it is generally or usually right to ...;" "it is always wrong to...;" and "it is generally or usually wrong to..."

The deontological norms include both the "hyper-norms" and "local norms" of the integrative social contracts theory of Donaldson and Dunfee (1994) and Dunfee, Smith, and Ross (1999). Contrasted with specific, community-based, "local norms," hypernorms are universal norms that represent "principles so fundamental to human existence that...we would expect them to be reflected in a convergence of religious, philosophical, and cultural beliefs" (Donaldson & Dunfee, 1994, p. 265). These hypernorms represent "a thin set of universal principles that would constrain the relativism of community moral free space" (Dunfee, Smith, & Ross, 1999, p.19). In the area of business ethics, they offer examples of hypernorms such as informing employees about dangerous health hazards and employees' rights to physical security.

In contrast to the deontological evaluation, the teleological evaluation process focuses on four constructs: (1) the perceived consequences of each alternative for various stakeholder groups, (2) the probability that each consequence will occur to each stakeholder group, (3) the desirability or undesirability of each consequence, and (4) the importance of each stakeholder group. Both the identity and importance of the stakeholder groups will vary across individuals and situations. For example, the stakeholders may (or may not) include one's self, family, friends, customers, stockholders, suppliers, or employees.

Although the H-V theory proposes that the teleological evaluation process is influenced by the desirability and probability of consequences, as well as the importance of stakeholders, no specific information-processing rule (such as a lexicographic process) is postulated. Indeed, the model proposes that the information-processing rules will differ across different people's personal moral codes. The overall result of the teleological evaluation will be beliefs about the relative goodness versus badness brought about by each alternative, as perceived by the decision maker. One interpretation of the teleological evaluation (TE) process for an alternative K , with regard to stakeholders 1, 2, 3,... m , who have differing importance weights (IW) is:

$$TE_K = \sum_{n=1}^{n=m} [IW_n \times PosCon_n \times P_{Pos}] - [IW_n \times NegCon_n \times P_{Neg}] + [IW_2 \times PosCon_2 \times P_{Pos}] - [IW_2 \times NegCon_2 \times P_{Neg}] + \dots$$

In this formula:

IW_1 = Importance of stakeholder 1

$PosCon_1$ = Positive consequences on stakeholder 1

$NegCon_1$ = Negative consequences on stakeholder 1

P_{Pos} = Probability of positive consequences occurring

P_{Neg} = Probability of negative consequences occurring

We stress that the formula represents an *interpretation* of the teleological evaluation process. We do not posit that people actually make these detailed calculations. Instead, we propose, people actually go through an informal process for which the formula is an idealized, formalized representation.

The core of the model comes next. The H-V theory posits that an individual's ethical judgments (for example, the belief that a particular alternative is the most ethical alternative) are a function of the individual's deontological evaluation (i.e., applying norms of behavior to each of the alternatives) and the individual's teleological evaluation (i.e., an evaluation of the sum total of goodness versus badness likely to be provided by each alternative for all relevant stakeholders). That is, $EJ = f(DE, TE)$, where "EJ" is Ethical Judgments, "DE" is Deontological Evaluation and "TE" is Teleological Evaluation. It is possible that *some* individuals in *some* situations will be strict (e.g., "Kantian") deontologists and, therefore, will completely ignore the consequences of alternative actions (i.e., $TE = \text{zero}$). However, the theory

maintains that it is unlikely that such a result would be found across many individuals and different situations. Similarly, though it is possible that some people in some situations might be strict (e.g., “utilitarian”) teleologists (i.e., $DE = \text{zero}$), such a result is unlikely across many individuals and situations.

Consistent with general theories in consumer behavior (e.g., Engel, Blackwell, & Kollat, 1978; Howard & Sheth, 1969) and the Fishbein and Ajzen (1975) model, the H-V model posits that ethical judgments impact behavior through the intervening variable of intentions. Like Petty and Cacioppo (1986) and Jones (1991), the H-V model proposes that both ethical judgments and intentions should be better predictors of behavior in situations where the ethical issues are central, rather than peripheral.

The H-V model proposes that ethical judgments will sometimes differ from intentions because TE also independently affects intentions. That is, though an individual may perceive a particular alternative as the most ethical, the person may intend to choose another alternative because of certain preferred consequences (e.g., there might be significant positive consequences to one's self as a result of choosing the less ethical alternative). The theory suggests that when behavior and intentions are inconsistent with ethical judgments, there will be feelings of *guilt*. Therefore, two individuals, A and B, may engage in the same behavior, yet only A may feel guilty, because B's behavior is consistent with his or her ethical beliefs.

What is called *action control* in the model is the extent to which an individual actually exerts control in the enactment of an intention in a particular situation (Ajzen, 1985; Tubbs & Ekeberg, 1991). That is, situational constraints may result in behaviors that are inconsistent with intentions and ethical judgments. One such situational constraint may be the *opportunity* to adopt a particular alternative. Zey-Ferrell, Weaver, and Ferrell (1979) empirically document the influence of opportunity on behavior in situations having ethical content. Similarly, Mayer (1970) identifies opportunity as being a condition that impinges on ethical behavior.

After behavior, there will be an evaluation of the actual consequences of the alternative selected. This is the major learning construct in the model. These actual consequences provide feedback to the category of variables labeled “Personal Characteristics.” He-

garty and Sims (1978) examined whether a system of perceived rewards and punishments could change behaviors in a situation involving ethical content. They concluded that “the results lend support to the notion that many individuals can be conditioned (i.e., can “learn”) to behave unethically under appropriate contingencies” (p. 456). Conversely, of course, the H-V theory maintains that individuals can be conditioned to behave ethically.

The H-V model identifies several personal characteristics that might influence specific aspects of the ethical, decision-making process. Unquestionably, an individual's personal religion influences ethical decision making. *A priori*, compared with nonreligious people, one might suspect that (1) highly religious people would have more clearly defined deontological norms and (2) such norms would play a stronger role in ethical judgments. Vitell, Paolillo, and Singh (2005), in a consumer ethics setting, examined the impact of both intrinsic and extrinsic religiosity on ethical beliefs, where the former is characterized by individuals sincerely incorporating faith and religious beliefs into everyday life, and the latter is characterized by individuals simply using religion as a source of comfort, social support, self-justification, and/or status. Their findings indicate that while extrinsic religiosity has little impact on one's ethical beliefs, intrinsic religiosity is a significant determinant of consumer ethical beliefs.

An individual's value system would also impact the decision process. In general, we urge researchers to explore many different values and the extent to which these values impact ethical decision making. Consider, for example, “organizational commitment” as one such value. Hunt, Wood, and Chonko (1989) found corporations that have high ethical values will, subsequently, have employees more committed to the organization's welfare. This is an apparently positive outcome. However, is it possible that individuals exhibiting high organizational commitment (even *because* of the organization's ethical values) will then place such great importance on the welfare of the organization that they may engage in questionable behavior if such behavior were thought to be beneficial to the organization? A four-country study (Vitell & Paolillo, 2004) indicates a link between organizational commitment and the decision maker's perception that ethics should be a long-term, top priority of the organization.

“Belief systems” focuses on the individual’s set of beliefs about the world. For example, one might consider Machiavellianism as a belief system, as has been explored by Singhapakdi and Vitell (1991). More generally, the kinds of beliefs the H-V model emphasizes are those that reflect how the individual believes the world “works.” To what extent does an individual believe that all people are motivated solely by self-interest? In moral philosophy terms, to what extent does a person believe all others are guided by ethical egoism? The model suggests that, to the extent that an individual believes this is how the world actually “works,” this belief will guide the individual’s behavior by influencing the perceived consequences of alternatives and their probabilities.

Strength of moral character has been argued to be an important moderator of the relationship between intentions and behavior by Williams and Murphy (1990). Drawing on Aristotle’s virtue ethics, Williams and Murphy emphasize, among other things, the important function of role models in developing a virtuous moral character (i.e., one having such virtues as perseverance, courage, integrity, compassion, candor, fidelity, prudence, justice, public-spiritedness and humility). Thus, those individuals with high moral character would have the strength of will to behave in a manner consistent with their ethical judgments.

The subject of cognitive moral development (Kohlberg, 1984; Rest, 1986; Trevino, 1986) has received much attention in the ethics literature. A study by Goolsby and Hunt (1992) found that marketing practitioners compare favorably with other social groups in their level of cognitive moral development. Furthermore, they found that marketers scoring high on cognitive moral development tend to be female, highly educated, and high in social responsibility. Because a higher stage of cognitive moral development implies a greater capacity to reason through complex ethical situations, it would seem that individuals high in cognitive moral development would, among other things, (1) bring in more deontological norms in any situation and (2) would consider the interests of more stakeholders in their decision making.

As a final personal characteristic, some people are, quite simply, more *ethically sensitive* than others. That is, when placed in a decision-making situation having an ethical component, some people never recognize that there is an ethical issue involved at all. Recall that

the model starts with the perception that there is, indeed, some ethical problem involved in the situation. The systematic study of ethical sensitivity has begun in the areas of dentistry (Bebeau, Rest, & Yamoore, 1985), professional counseling (Volker, 1979), and accounting (Shaub, 1989). In marketing, Sparks and Hunt (1998) explored the ethical sensitivity of marketing researchers and found, among other things, that their sample of practitioners was more ethically sensitive to research ethics issues than a sample comprised of marketing students. They conclude that “the greater ethical sensitivity exhibited by marketing research practitioners can be attributed to their socialization into the marketing research profession, that is, by their learning the ethical norms of marketing research” (Sparks & Hunt, 1998, p. 105).

The H-V model stresses the importance of “Cultural Environment” in influencing the process of ethical decision making. As components of culture, the H-V model suggests that researchers focus attention on religion, legal systems, and political systems.

The boxes in the model labeled “Industry Environment,” “Professional Environment” and “Organizational Environment” specifically orient the model toward ethical situations for businesspeople and the professions. The H-V model proposes that all industries, professional associations and organizations have complex sets of norms, some of which are often formalized in codes, but most of which are informal norms communicated in the processes. These norms, therefore, form a framework by which individuals are *socialized* into their respective organizations, professions and industries.

There have been scores of studies that have used the H-V model as a theoretical foundation for empirical investigation and/or theoretical analysis. Examples of the tests include the works of Burns and Kiecker (1995), Donoho, Polonsky, Herche and Swenson (1999), Hunt and Vasquez-Parraga (1993), Mayo and Marks (1990), Menguc (1997), Singhapakdi and Vitell (1990, 1991), and Vitell and Hunt (1990). In general, empirical results tend to support the theory. I turn now to using the H-V model to explicate the concept of personal moral code and its relationship to trust and distrust.

Personal moral codes, trust, and distrust

The H-V model provides a framework for explicating people’s personal moral codes, trust, and distrust.

According to the H-V model, differences in personal moral codes result from differences in:

- the rules for combining the deontological and teleological evaluations;
- the deontological norms held;
- the relative importance of particular norms;
- the rules for resolving conflicts among norms;
- the rules for interpreting the applicability of norms in particular situations;
- the importance weights assigned to particular stakeholders;
- the rules for combining the teleological components;
- the perceived positive consequences for particular (e.g., highly important) stakeholders;
- the perceived negative consequences for particular (e.g., very unimportant) stakeholders;
- the perceived probabilities of positive and negative consequences for particular stakeholders.

Some people's personal moral codes emphasize deontological factors; others emphasize teleological factors. Some codes are trust-inducing; others produce distrust.

Consider the personal moral code implied by the neoclassical tradition in economics. Neoclassical economics assumes that everyone is a utility maximizer, which is interpreted as self-interest maximization. In terms of the H-V model, Deontological Evaluation is zero, and all ethical judgements are formed solely by Teleological Evaluation. Furthermore, the importance weights assigned to all stakeholders other than one's self are assigned zero. Therefore, in the neoclassical tradition in economics, all persons have personal moral codes that lead them to choose the alternative that has the highest score in a highly circumscribed Teleological Evaluation process in which the importance weights for all stakeholders other than one's self are zero.

For example, Williamson's (1975, p. 255) transaction cost economics assumes that "economic man...is thus a more subtle and devious creature than the usual self-interest seeking assumption reveals." For transaction cost economics, *homo economics* not only self-interest maximizes but does so with opportunistic "guile." Williamson argues for assuming universal opportunism because it is "ubiquitous" (1981, p. 1550), "even among the less opportunistic types, most have their price" (1979, p. 234), and opportunistic "types cannot be distinguished ex ante from sincere types" (1975, p. 27) or, at the very least, "it is very costly to distinguish opportunistic from nonopportunistic

types ex ante" (1981, p. 1545). Even though, as Williamson acknowledges, "to craft credible commitments... is to create functional substitutes for trust," (1994, p. 7) he maintains that "the study of economic organization is better served by treating economic organization without reference to trust" (1993, p. 99).

The preceding shows how some personal moral codes spawn distrust. Specifically, if a society's dominant culture actually focuses solely on Teleological Evaluation, with importance weights of zero for all stakeholders other than one's self, then social trust *cannot* exist: the universal opportunism of such a restricted moral code implies that one must *always* presume nontrustworthy behavior by others. As a consequence, Etzioni (1988) points out: "The more people accept the [utility maximization part of the] neoclassical paradigm as a guide for their behavior, the more their ability to sustain a market economy is undermined." (p. 257)

Etzioni (1988) cites empirical studies suggesting that neoclassical theory, as interpreted by students, licenses opportunism. For students, "is" becomes "ought." For example, the studies of Marwell and Ames (1981) find a positive correlation between formal training in economics and the frequency of free riding. If everyone free rides, students apparently conclude that they might as well free ride also. As a second example, Frank, Gilovich, and Regan (1993) distributed questionnaires to students concerning their likelihood of engaging in dishonest behavior at the beginning and end of three classes: (1) an economics class in which both the book and the instructor stressed neoclassical theory, (2) an economics class in which the book stressed neoclassical theory but the instructor did not, and (3) an astronomy class as a control. Students in all three classes were more dishonest at the end of the semester than at the beginning. However, the shift toward dishonesty by students in the two economics classes was greater than that of those in the control group. Furthermore, the shift toward dishonesty was greater in the economics class where the professor emphasized and supported neoclassical theory than in the class where only the textbook did so. Students, as Etzioni (1988) points out, are indeed "learning" the lesson of neoclassical theory: opportunism is universal, why fight it?

If personal moral codes that presume utility maximization spawn distrust, which moral codes present trust? Etzioni (1988) argues for personal moral

codes that—in terms of the H-V model—focus on the top half of the model, that is, the Deontological Evaluation. Specifically, he argues for codes that are based on deontological ethics because a society whose dominant culture embraces deontological ethics can sustain social trust and enjoy its wealth-creating attributes. That is, when the people of a society share a moral code based primarily on deontological ethics, trust can exist. When trust exists, the costs that firms and societies have that are associated with opportunism, i.e., shirking, cheating, stealing, dishonesty, monitoring, free-riding, and “hostage-taking,” are avoided. Consequently, argues Etzioni (1988), a culture that emphasizes deontological ethics should contribute to a society’s productivity.

If (at the micro-level) the primary objective of firms is superior financial performance (e.g. more profit than last year or a return on investment greater than one’s competitors), but (at the macro-level) a key factor distinguishing wealthy from nonwealthy societies is trust-promoting institutions, the challenge for any theory of markets and any dynamic theory of competition within markets is to explicate the process by which such macro-level, trust-promoting institutions as moral codes can contribute to (or from) firm-level, superior financial performance. A detailed example shows how R-A theory explicates this process.

The resource-advantage theory of competition

Resource-advantage theory is an evolutionary, process theory of competition that is interdisciplinary in the sense that it has been developed in the literatures of several different disciplines. These disciplines include marketing (Foss 2000; Hodgson 2000; Hunt 1997a; 1999; 2000b; c; 2001; 2002a; b; Hunt & Arnett 2001; 2003; 2004; Hunt & Derozier 2004; Hunt & Madhavaram 2006a; b; Hunt & Morgan 1995; 1996; 1997; 2005; Morgan & Hunt 2002), management (Hunt 1995; 2000a; Hunt & Lambe 2000), economics (Hunt 1997b; c; d; 2000d; 2002c), ethics (Arnett & Hunt 2002), law (Grengs 2006), and general business (Hunt 1998; Hunt & Arnett 2006; Hunt & Duhan 2002). R-A theory is also interdisciplinary in that it draws on, and has affinities with, numerous other theories and research traditions, including evolutionary economics, “Austrian” economics, the historical tradition, the resource-based

tradition, the competence-based tradition, institutional economics, and economic sociology.

The knowledge content of a research tradition derives from its foundational premises. As introduced in Hunt and Morgan (1995; 1997) and further explicated in Hunt (2000b), the foundational premises of resource-advantage theory are:

- P1. Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
- P2. Consumer information is imperfect and costly.
- P3. Human motivation is constrained self-interest seeking.
- P4. The firm’s objective is superior financial performance.
- P5. The firm’s information is imperfect and costly.
- P6. The firm’s resources are financial, physical, legal, human, organizational, informational, and relational.
- P7. Resource characteristics are heterogeneous and imperfectly mobile.
- P8. The role of management is to recognize, understand, create, select, implement, and modify strategies.
- P9. Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

The structure and foundations of R-A theory

Our overview of the structure and foundations of R-A theory will follow closely the theory’s treatment in Hunt (2000b). Resource-advantage theory is a general theory of competition that describes the *process* of competition. Figures 2 and 3 provide schematic depictions of R-A theory’s key constructs. Using Hodgson’s (1993) taxonomy, R-A theory is an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organizational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions, and public policy affect economic performance. Evolutionary theories of competition require units of selection that are (1) relatively durable, that is, they can exist, at least potentially, through long periods of time, and (2) heritable, that is, they can be transmitted to successors. For R-A theory, both firms and resources are proposed as the heritable, durable units of selection, with competition for comparative advantages in resources constituting the selection process.

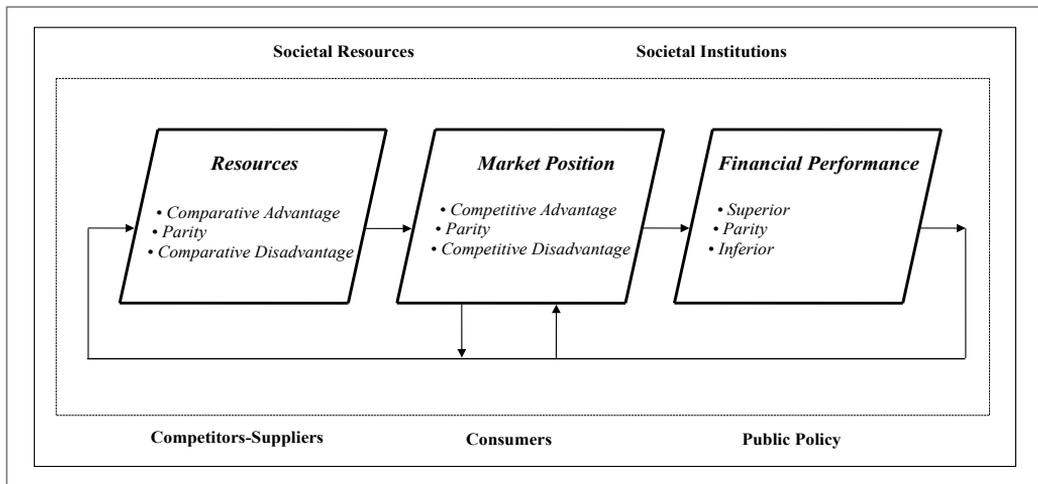


Figure 2. A Schematic of the Resource-Advantage Theory of Competition. Adapted from Hunt and Morgan (1997).
 READ: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance “signaling” relative market position, which, in turn signals relative resources.

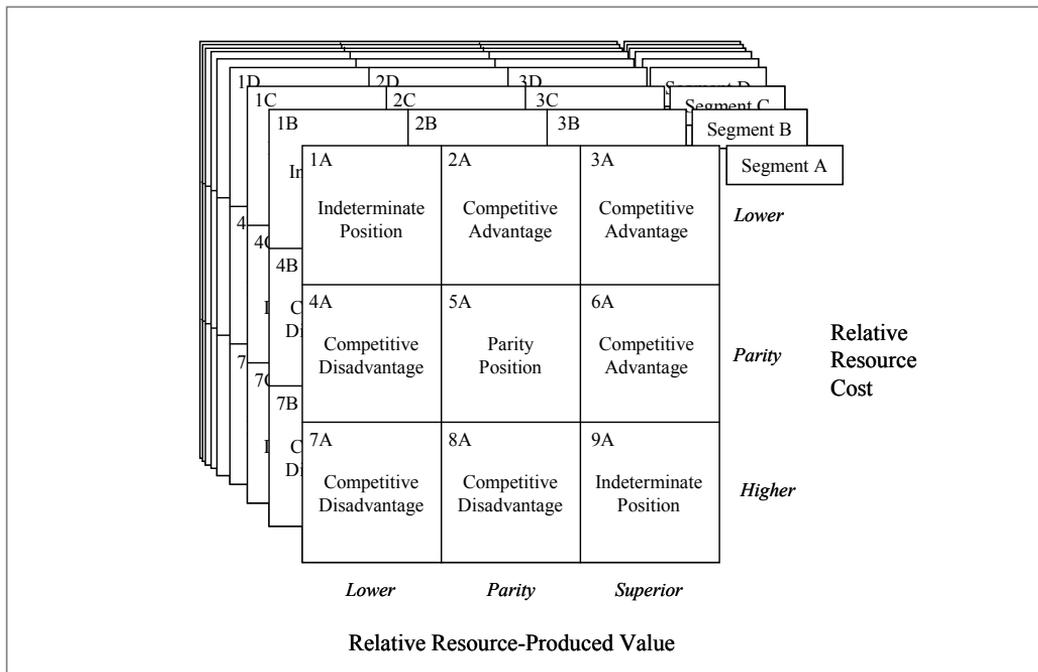


Figure 3. Competitive Position Matrix. Adapted from Hunt and Morgan (1997).
 Read: The marketplace position of competitive advantage identified as Cell 3A, for example, in segment A results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering that (a) is perceived to be of superior value by consumers in that segment and (b) is produced at lower costs than rivals.
 Note: Each competitive position matrix constitutes a different market segment (denoted as segment A, segment B, ...).

At its core, R-A theory combines heterogeneous demand theory with a resource-based view of the firm (see premises P1, P6, and P7). Contrasted with perfect competition, heterogeneous demand theory views intra-industry demand as significantly heterogeneous with respect to consumers' tastes and preferences. Hence, it is inappropriate to draw demand curves for most industries. Indeed, because of heterogeneous intra-industry demand, industries are best viewed as collections of market segments. Therefore, viewing products as bundles of attributes, different market offerings or "bundles" are required for different market segments within the same industry.

Contrasted with the view that the firm is a production function that combines homogeneous, perfectly mobile "factors" of production, resource-based theory holds that the firm is a combiner of heterogeneous, imperfectly mobile entities that are labeled "resources." These heterogeneous, imperfectly mobile resources, when combined with heterogeneous demand, imply significant diversity as to the sizes, scopes, and levels of profitability of firms within the same industry. Resource-based theory parallels, if not undergirds, what Foss (1993) calls the "competence perspective" in evolutionary economics and the "capabilities" approaches of Teece and Pisano (1994) and Langlois and Robertson (1995).

As diagramed in Figures 2 and 3, R-A theory stresses the importance of (1) market segments, (2) heterogeneous firm resources, (3) comparative advantages/disadvantages in resources, and (4) marketplace positions of competitive advantage/disadvantage. In brief, market segments are defined as intra-industry groups of consumers whose tastes and preferences with regard to an industry's output are *relatively* homogeneous. Resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Thus, resources are not just land, labor, and capital, as in neoclassical theory. Rather, resources can be categorized as:

- Financial (e.g., cash resources, access to financial markets),
- Physical (e.g., plant, equipment),
- Legal (e.g., trademarks, licenses),
- Human (e.g., the skills and knowledge of individual employees),
- Organizational (e.g., competences, controls, policies, culture),
- Informational (e.g., knowledge from consumer and competitive intelligence), and
- Relational (e.g., relationships with suppliers and customers).

Each firm in the marketplace will have at least some resources that are unique to it (e.g., very knowledgeable employees, efficient production processes, etc.) that could constitute a comparative advantage in resources that could lead to positions of competitive advantage (i.e., cells 2, 3, and 6 in Figure 3) in the marketplace. Some of these resources are not easily copied or acquired (i.e., they are relatively immobile). Therefore, such resources (e.g., culture, competences, and processes) may be a source of long-term competitive advantage in the marketplace.

Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of comparative advantages in resources to explain the benefits of trade, R-A theory recognizes that many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile. Therefore, analogous to nations, some firms will have a comparative advantage and others a comparative disadvantage in efficiently and/or effectively producing particular market offerings that have value for particular market segments.

Specifically, as shown in Figure 2 and further explicated in Figure 3, when firms have a comparative advantage in resources, they will occupy marketplace positions of competitive advantage for some market segment(s). Marketplace positions of competitive advantage then result in *superior* financial performance. Similarly, when firms have a comparative disadvantage in resources they will occupy positions of competitive disadvantage, which will then produce *inferior* financial performance. Therefore, firms compete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. As Figure 2 shows, how well competitive processes work (to, for example, foster productivity and economic growth) is significantly influenced by five environmental factors: the societal resources on which firms draw, the societal institutions that form the "rules of the game" (North 1990), the actions of

competitors and suppliers, the behaviors of consumers, and public policy decisions.

Consistent with its Schumpeterian heritage, R-A theory places great emphasis on innovation, both proactive and reactive. The former is innovation by firms that, although motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures—it is genuinely entrepreneurial in the classic sense of *entrepreneur*. In contrast, the latter is innovation that is directly prompted by the learning process of firms' competing for the patronage of market segments. Both proactive and reactive innovation can be "radical" or "incremental," and both contribute to the dynamism of R-A competition.

Firms (attempt to) learn in many ways—by formal market research, seeking out competitive intelligence, dissecting competitor's products, benchmarking, and test marketing. What R-A theory adds to extant work is how the process of competition itself contributes to organizational learning. As the feedback loops in Figure 2 show, firms learn through competition as a result of the feedback from relative financial performance signaling relative market position, which in turn signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (see Figure 3), they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantaged firm(s) and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e., an *efficiency* advantage), or relative value (i.e., an *effectiveness* advantage), or both.

Firms occupying positions of competitive advantage can continue to do so if (1) they continue to reinvest in the resources that produced the competitive advantage, and (2) rivals' acquisition and innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantaged firm's resources are either protected by such societal institutions as patents, or the advantage-producing resources are causally ambiguous, socially or technologically complex, tacit, or have time compression diseconomies.

Competition, then, is viewed as an evolutionary, disequilibrium-provoking process. It consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. Once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. R-A theory is, therefore, inherently dynamic. Disequilibrium, not equilibrium, is the norm. In the terminology of Hodgson's (1993) taxonomy of evolutionary economic theories, R-A theory is non-consummatory: it has no end-stage, only a never-ending process of change. The implication is that, though market-based economies are *moving*, they are not moving toward some final state, such as a Pareto-optimal, general equilibrium.

Status of the R-A theory research program

Resource-advantage theory has been subjected to numerous investigations. These studies have revealed the theory to be able to explain, predict, and understand a wide range of phenomena. What follows is a sample of the areas previously examined. (To improve readability, we do not provide multiple cites from individual articles. Instead, we provide specific page numbers from Hunt (2000b), which in turn references other articles.)

R-A theory contributes to explaining firm diversity (pp. 152-155), makes the correct prediction concerning financial performance diversity (pp. 153-155), contributes to explaining observed differences in quality, innovativeness, and productivity between market-based and command-based economies (pp. 169-170), shows why competition in market-based economies is dynamic (pp. 132-133), incorporates a resource-based view of the firm (pp. 85-86), incorporates the competence view of the firm (pp. 87-89), has the requisites of a phylogenetic, non-consummatory, and disequilibrium-provoking theory of competition (pp. 23-24), explicates the view that competition is a process of knowledge discovery (pp. 29-30, 145-147), contributes to explaining why social relations constitute a resource only contingently (pp. 100-102), and has the requisites

of a moderately socialized theory of competition (pp. 100-102).

In addition, R-A theory shows how path dependence effects occur (pp. 149-152), expands the concept of capital (pp. 186-190), predicts correctly that technological progress dominates the K/L (i.e., capital/labor) ratio in economic growth (pp. 193-194), predicts correctly that increases in economic growth cause increases in investment (pp. 194-199), predicts correctly that most of the technological progress that drives economic growth stems from actions of profit-driven firms (pp. 199-200), predicts correctly that R-A competition can prevent the economic stagnation that results from capital deepening (pp. 200-203), contributes to explaining the growth pattern of the (former) Soviet Union (pp. 201-203), provides a theoretical foundation for why formal institutions promoting property rights and economic freedom also promote economic growth (pp. 215-228), and has the requisites for a general theory of competition that incorporates perfect competition as a limiting special case, thereby incorporating the predictive success of neoclassical theory and preserving the cumulateness of economic science (pp. 240-243).

Trust, personal moral codes, R-A theory, and the wealth of nations

We turn now to explicating the process by which R-A theory can explain how macro-level, trust-promoting institutions such as personal moral codes can contribute to (or from) firm-level, superior financial performance. Recalling the role of relative, resource costs and resource-produced value in R-A theory, consider two organizations, *A* and *B*, that are competing for the same market segment. Assume that *A* is located in an area populated primarily by neoclassical utility maximizers and *B* is in an area of deontologists (or, alternatively, *B*'s hiring procedures screen out utility maximizers). Because most of *A*'s employees will be guided by self-interest or utility maximization and *B*'s by a code stressing deontological ethics, *A* will have transformational costs (e.g. costs associated with shirking, cheating, monitoring, and free riding) that *B* avoids. In R-A theory's terms, the fact that *B*'s employees are guided by deontological ethics and hence, are trustworthy results in an intangible, comparative advantage-producing *resource* for *B*, when competing

with *A*. *Ceteris paribus*, *B* will then occupy a marketplace position of competitive advantage in Figure 3 *vis-à-vis* *A* and enjoy superior financial performance—its primary objective.

Now recall that organizational competences are a form of resource in R-A theory and that such competences are heterogeneously distributed among firms. Furthermore, assume that both *A* and *B* seek a strategic alliance with *C*, who has a particular competence that both *A* and *B* lack. For example, perhaps *C* can produce a key component of *A*'s and *B*'s products that is of particularly high quality—a quality that neither *A* nor *B* can match. Further assume that, because of their employees' different moral codes, *B* has a reputation for integrity and *A* for opportunism. Because *C* would fear *A*'s opportunism, *C* would either (1) decline the alliance or (2) insist that *A* absorb the high monitoring and other costs resulting from *A*'s moral code. In contrast, *B* is an attractive partner for *C* because *C* recognizes that *B*'s moral code lessens the likelihood of *B* engaging in opportunistic behavior. Thus, *B* will be able to align itself with *C*, and *A* will have to do without *C*'s competence. *B*'s strategic alliance with *C* will then become what R-A theory calls a "relational resource" that makes *B* more *effective* in competing with *A*. That is, *B* is now more likely to achieve marketplace positions identified as cells 2 and 3 in Figure 3 and, thus, enjoy superior financial performance.

Now assume that *A* and *B* are nation-states, instead of organizations, where *A*'s dominant culture has a moral code tending toward neoclassical utility maximization and *B*'s toward deontological ethics. *Ceteris paribus*, *A* will be less productive than *B* for three reasons. First, the firms in *A* must absorb transaction and transformational costs that the firms in *B* avoid. Therefore, *B* is more *efficient* than *A* in producing valued market offerings. Second, recalling again that organizational competences are heterogeneous, firms in *A* will be less successful in forming cooperative alliances or networks. Therefore, the alliances and networks in *B* will make it more *effective* than *A* in producing valued market offerings for both domestic and global markets. *B*'s greater efficiency and effectiveness, therefore, increases its productivity relative to *A*. Third, assume that firms in *A* are competing with those in *B* for the business of firms in nation *C*. *Ceteris paribus*, *B*'s firms will be in an advantageous position over those

in A because B's firms will be both more efficient and more effective in producing valued market offerings. Therefore, nation B is better able than A to reap the gains from trade with C, resulting in further increases in B's productivity and growth, relative to A.

Recall that a resource is any entity, tangible or intangible, that is available to (not necessarily owned by) the firm that enables it to produce valued market offerings. The preceding analysis implies that, just as employees having a moral code stressing deontological ethics constitutes a *firm* resource, a society having a dominant culture with a moral code stressing deontological ethics has a *societal* resource upon which firms can draw. Thus, R-A theory—alone among theories of competition—can explain how such macro-level, informal institutions as moral codes can contribute to (or from) firm-level, superior financial performance. In so doing, it contributes to explaining how societal institutions that promote social trust also promote the wealth of nations.

Conclusion

Scholars from numerous disciplines maintain that societal-level moral codes that promote *social trust* promote wealth creation. Despite this consensus, the nature of the kinds of societal-level moral codes that promote social trust remains unclear. Also remaining unclear is the specific competitive process by which social trust promotes productivity and economic growth, that is, wealth creation. Using the Hunt-Vitell theory of ethics, this article explicates the concept of personal moral codes as a means of understanding societal-level moral codes. We show that societal-level codes based on utility maximization promote social distrust. In contrast, societal-level codes based on deontological ethics promote social trust. Furthermore, we show how, using the resource-advantage theory of competition, that societal-level moral codes that produce social trust also promote productivity and economic growth. Thus, we explain how social trust promotes the wealth of nations.

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